FARMERS' NEWSLETTER

feed

May 78/F-3

This newsletter, which has been authorized by Congress, is sent to you by USDA. It is designed to help you make production and marketing decisions. If you would like to continue receiving it or any of the other newsletters in the series, return the form on the back with your name and address. (You need not return the form if you've already requested to be put on the mailing list.) All the newsletters will be issued as warranted during the year. Any comments as to how we can make these letters more useful to you as a producer are welcome.

If you grow corn or other feed grains, your price outlook has improved considerably in the past few months. The average farm price of corn rose from $1.60 per bushel last August to around $2.25 in April. New crop corn futures at Chicago sagged to $2.20 last December but are now in the $2.40 to $2.50 range.

Several developments have helped:

- Farmers have placed a billion bushels of corn under Government price-support loans and nearly 320 million bushels of wheat in the farmer-held grain reserve. USDA announced plans to encourage farmers to put more than 600 million bushels of 1977 corn, sorghum grain, and barley in the grain reserve. In the short time since 1977-crop feed grains became eligible for the reserve, farmers have entered around 55 million bushels.

- USDA announced on March 29 that any excess 1978 crops would be placed in the farmer-held reserve, removed limits on the size of the 1976 and 1977 crop reserve, and waived interest charges on reserve loans after the first year of the 3-year contract.

- USDA launched the set-aside and, later, the land diversion program to reduce 1978 plantings of corn, sorghum, and barley.

- Export sales picked up. The USSR has been a strong buyer of corn, and the People's Republic of China--not a buyer of U.S. grain since 1974--recently ordered about 37 million bushels of U.S. wheat. With reports of drought in China, there may be added grain buying.

Three big questions loom in the price outlook for feed grains:

1) To what extent will the USDA set-aside, land diversion, and grain reserve programs affect the production and marketing of feed grains?

2) What will be the average yields of the new crops?

3) How much feed grain will foreign buyers and the domestic feeding market take?

Your Program Options

Participating in the set-aside program for 1978 crops will affect your acreage planted but will make your crops eligible for price-support loans and the farmer-held reserve program. Watch for reports on the signup. Heavy participation should strengthen prices.

Approved by the World Food and Agricultural Outlook and Situation Board and published by the Economics, Statistics, and Cooperatives Service, USDA. May 1978.

Loan Rates and Target Prices for Grains

	Loan rates		Target prices	
	1977	1978	1977	1978
	Dollars per bushel			
Corn	2.00	2.00	2.00	2.10
Sorghum grain	1.90	1.90	2.28	[1] 2.28
Barley	1.63	1.63	2.15	[1] 2.25
Oats	1.03	1.03	- - -	- - -
Soybeans	3.50	4.50	- - -	- - -

[1] Preliminary.

Besides participating in the 10-percent set-aside, you may receive land diversion payments for diverting additional acreage equal to 10 percent of your 1978 plantings for harvest of corn, sorghum, and barley.

With about 10 million acres expected to be in set-aside or land diversion, farmers may plant 6 to 8 million fewer acres to feed grains than the 128 million seeded last year. USDA will issue an estimate of actual plantings June 30.

Let's say you're participating in the set-aside and land diversion programs. You're eligible for price-support loans on your crops and for cash payments of 20 cents a bushel on corn and 12 cents a bushel on sorghum and barley for normal production on your planted acreage.

If your farm's normal corn yield is 100 bushels per acre and you plant 200 acres, your total payment would be \$4,000 (\$0.20 X 100 bushels X 200 acres = \$4,000). You may receive half the diversion payment when you sign up; the rest later.

The following examples show how a corn and soybean grower might adjust his acreage to participate in the set-aside alone, or in both the set-aside and land diversion. Under the land diversion program, the area planted to corn, sorghum, or barley must not exceed the acreage you planted to any of these crops in 1977.

Adjusting Acreage for Set-aside and Land Diversion Programs; Examples

	1977	1978		
		Set-aside only	Set-aside and diversion	
		Acres		
Planted to corn	210	200	200	166
Planted to soybeans	190	180	160	200
Required set-aside . .	None	20	20	17
Voluntary diversion	None	None	20	17
Normal crop acreage	400	400	400	400

Reserves Help Support Prices

One reason for the recent price strength is that farmers have placed a large part of their 1977 corn crop under price-support loans--nearly one-sixth as of early May. If they also put a substantial portion of their grains in the farmer-owned reserve as expected, that should isolate about a third of season-ending stocks from the market.

You receive advance storage payments for each year your grain is in the reserve. For the first year, storage payments are 25 cents a bushel for all grains except oats, which earn 19 cents.

Your crops must be under loan to go into the reserve, and you have until May 31 to get your 1977 corn and sorghum crops under loan. More information about your program options is available at your ASCS county office.

Prospects for 1978 Crops

USDA recently made its first projections of U.S. grain production, use, and prices for 1978/79. Depending mostly on the weather, U.S. corn production will be between 5.5 billion (in the case of unfavorable conditions) and 6.7 billion bushels (in the case of favorable conditions). Corn makes up about four-fifths of the total supply of feed grains.

Combined domestic use and exports of corn for next season might range from 6.0 to 6.2 billion bushels. And carryover stocks at season's end could be between 0.6 and 1.7 billion bushels, compared with 1.2 billion expected this October 1.

Of course, yield prospects for the new crop are uncertain this early in the year. There are dry areas in the Southern Plains which could spread, but most long-range weather forecasters don't expect extensive drought.

The Corn Belt has had extensive rains, so soils there generally have adequate to excessive moisture. Although the wet soils probably mean that plantings will continue to lag behind the usual pattern, which may hurt yields in some areas, they do provide some insurance against damage from dry spells this summer. However, prolonged wetness could cause farmers to shift acres from grains.

U.S. Corn Supply, Use, and Price

	1976/77	1977/78 estimated	1978/79 projected Alt. I[1]	Alt. II[1]
		Million bushels		
Supply:				
Beginning stocks	399	884	1,207	1,207
New crop	6,266	6,357	6,700	5,500
Imports	3	1	1	1
Total supply	6,668	7,242	7,908	6,708
Use:				
Food, seed, & industry	513	535	560	540
Feed	3,587	3,750	4,125	3,725
Exports	1,684	1,750	1,500	1,800
Total use	5,784	6,035	6,185	6,065
Ending stocks	884	1,207	1,723	643
		Dollars per bushel		
Season average farm price	2.15	2.05	1.90-2.00	2.40-2.60

[1] Alternative I assumes generally favorable production conditions worldwide; Alternative II assumes unfavorable conditions.

Between now and harvest, weather in major producing areas of the United States and abroad will be the most important price-making factor. With good crops worldwide, 1978 corn prices could come under pressure from heavy supplies and drop toward the loan rate unless the excess is isolated from the market by the grain reserve. Poor crops worldwide would push corn prices into the $2.40 to $2.60 range.

How reliable are these production, use, and price forecasts? Statistically, the chances are 2 out of 3 that the final outcomes will be within these projections. What value do forecasts with such a wide range have at this time of year? They illustrate the great uncertainty about market conditions that grain producers will face during the coming marketing year and set some quantitative bounds on this uncertainty. They also point to the need for growers to be flexible in their marketing plans.

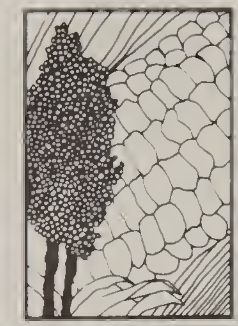
A review of the current supply picture shows there are more feed grains than the market needs. Season-ending corn stocks may be up 28 percent from 1977 and nearly three times the carryover of 2 years ago.

Exports, however, should hit a record volume during May-September, and a pickup in broiler production and cattle on feed should sustain feed use through this summer. As new crop prospects unfold, these demand factors will help support prices.

Market Prospects for 1978/79

If yields are near average or better this fall, livestock and poultry producers will probably feed a little more grain than in the current marketing year. Look for moderate increases in cattle feeding, broiler output, and hog production.

Foreign demand will depend largely on harvests in major producing areas. In Europe, fall-sown crops seem to have survived the winter in average or better condition. The USSR depends mostly on spring-seeded small grains.



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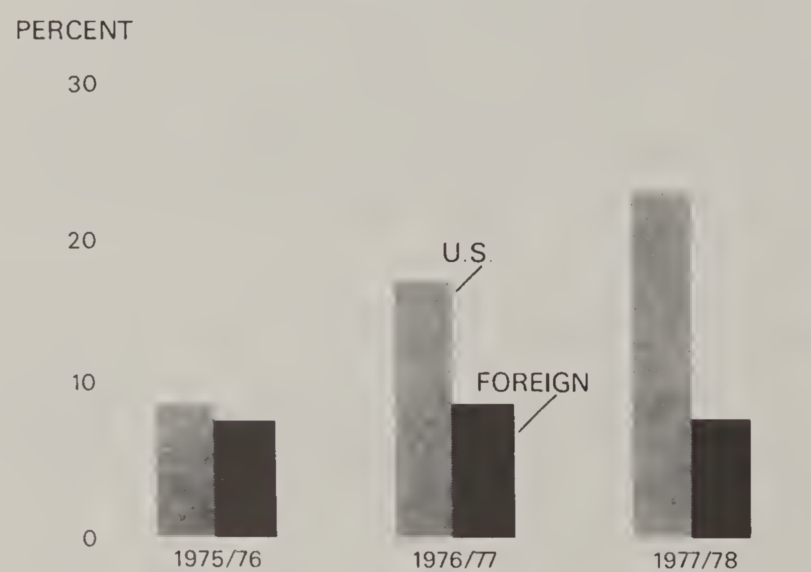
- ☐ Oilseeds (1)
- ☐ General Letter (4)
- ☐ Cotton (2)
- ☐ Livestock (5)
- ☐ Wheat (3)
- ☐ Feed (6)

In recent years, the expanding demand for animal products overseas has led to increased demand for U.S. corn and other feed grains.

Prospective U.S. supplies are sufficient to meet any foreseeable export demands. Substantial increases in exports could occur without liquidating the large U.S. stocks.

SEASON-ENDING STOCKS OF FEED GRAINS AS PERCENT OF ANNUAL NEEDS



Your Marketing Strategy

You'll have a wide range of possibilities for handling your 1978 crop. Your choice will depend, in part, on the grain conditioning and storage facilities available on your farm, the costs of commercial storage, and your eligibility for price-support loans and the grain reserve.

One strategy would be to spread new-crop sales over several months. Advance selling of a part of your crop --say at planting time or during the summer "scare" season--would be one way to protect yourself against the price-depressing potential of big crops here and abroad.

Holding at least part of your crop for later sale would permit you to take advantage of any price strength caused by adverse crop news. The price-support and reserve programs can help you hold your grain for better prices.

If you lack adequate storage capacity, you may want to consider adding some. Loans are available from the Commodity Credit Corporation to build or remodel crop storage and drying structures.

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FARMERS' NEWSLINE

For the latest crop, livestock, and economic information, call this TOLL FREE number: 800-424-7964. Round-the-clock reports change each weekday at 4:00 p.m. Washington, D.C., time.

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